

AR27



Financial highlights

	1975 — \$ '000 —	1974 — \$ '000 —	change %
Sales through company-owned outlets	\$13,327	\$ 8,517	+56
Net earnings	\$ 1,420	\$ 840	+69
Shareholders' equity	\$10,368	\$ 4,772	+117
Sales, including U.S. & Cdn. licensees	\$24,000	\$14,300	+68



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The Annual General Meeting of Shareholders will be held in the Hyatt Regency Toronto Hotel, June 9th, 1976 at 4:00 p.m.



President's remarks

For PoP Shoppes International Inc., 1975 was a year of record sales and earnings achieved in a period when the economies of the United States and Canada were in a deep recession.

It is a strength of our economic system, albeit an uncomfortable one, that recessionary periods create an extremely harsh climate for companies and their managements. Those that are inefficient or producing unneeded products are flushed out of the system, and for young enterprises, especially for new concept companies like The PoP Shoppe, a recession is a rigorous test of true worth.

Our results for the year therefore, are particularly gratifying to us. Sales for company-owned stores increased by 56% over the previous period and earnings by 69%. Like the phenomenally successful McDonald's chain, we had an idea about how to get an established product to people for less money and without loss of quality, and the achievement is being recognized.

Our licensees in the United States and Canada also reported record sales, and theirs, combined with our operations, totalled \$24 million, up 68% from \$14.3 million in 1974.

It is not surprising to us that after Forbes Magazine, one of the most

successful financial publications in the United States published an article about PoP Shoppes International in its November issue, we received several hundred telephone and mail enquiries from businessmen requesting licensing information. At the 1975 Fall convention of the National Soft Drink Association at Dallas, Texas, we received 750 serious enquiries about our licensing agreements. People in the business world have a sixth sense about the moment when a new concept matures and becomes established.

Another measure of the Company's maturity was manifest by the decision to offer our shares to the public during the year. We successfully completed a private placement of \$1.5 million in preference shares and distributed to the public \$3.5 million in common shares through Merrill Lynch, Royal Securities Limited.

PoP Shoppes International was the first major new common share offering in Canada of a junior industrial company in over two years.

The opening in November of a factory in Newfoundland completed our coast-to-coast network, establishing The PoP Shoppe as a national company in Canada. There are now 22 factory operations and approximately 300 wholesale and depot outlets.

In the United States where the soft drink market is most dynamic and competitive, 1975 was a year in which PoP Shoppes of America consolidated its position in the warmer States and continued its aggressive expansion programme. At the end of the year we had 12 factory outlets and 120 satellite

stores. Our intention is to make The PoP Shoppe a household name across the United States where not only is the per capita consumption of soft drinks higher (45.4% higher based upon 1974 figures from Statistics Canada and the National Soft Drink Association of the United States), the rate of growth is considerably faster.

Outlook:

It is our intention during 1976 to expand our operations in the United States. Plans are now in position to open PoP Shoppes in San Diego and Alameda, California; Duluth, Minnesota; Wichita, Kansas; Hartford, Connecticut; Buffalo, New York; and Portland, Maine.

In Canada we expect to have captured at least 5% of the Canadian take home market by the end of 1976. In support of this objective we plan to open new PoP Shoppes in Quebec City, Quebec; Kingston and Newmarket, Ontario; and Sydney, Nova Scotia. In addition, a third plant will be established in Toronto and a second in Montreal.

The recent equity issues have ensured a strong working capital base for the Company's current expansion plans in the United States. Our objective is to capture eventually 2% of the \$7 billion soft drink market in North America.

We wish to thank our customers for their support, our employees for their dedication and loyalty and our shareholders for their continued confidence.

BRUCE M. WESTWOOD
President

Concept

The market :

A question frequently asked is : "How can a company barely seven years old hope to take on an industry dominated by half a dozen well-seasoned giants ? Isn't it like a David taking on a Coca-Cola Goliath, having arrived with no sling-shot ?"

Some details about the markets in North America may serve to explain why it is not. The soft drink market is estimated currently to be worth about seven billion dollars a year. In the United States, PoP Shoppes has an initial objective of cornering between 2% and 3% of that — a great deal, but not enough to cause the major national brands to pick up the cudgels, certainly not while the market is growing.

With a two-year lead over potential competitors, we intend to move as rapidly as possible to develop our licensed network in the United States.

To reach our objective, a key policy decision was made early in 1975 to concentrate resources on expansion across the United States as quickly as possible. The bulk of the funds raised through the Canadian public issue will be used for that purpose.

We estimate that most urban areas in North America with populations exceeding 200,000 people are capable of supporting a factory-store. The optimum

market is one that has a high density of population living within a seven-mile radius of the factory-store and which has a high proportion of large middle-income families. It is estimated that there are more than 265 such communities in the United States.

The concept :

We are confident we will reach our objectives because the market demand is there and The PoP Shoppe concept has proved itself in difficult times.

Before Merrill Lynch went to the public to raise money through an issue of PoP Shoppes International Inc. common shares, Forbes Magazine wrote in its issue of November 15, 1975 :

"PoP Shoppes is a so-called 'mature' startup, a going concern facing what management sees as explosive growth. It badly needs equity capital. It's about the only kind of deal investors and underwriters will touch today ; no gambles on something new !"

"PoP Shoppes is one of those brilliantly simple ideas from which fortunes are made. Two Canadians in 1969 owned a small soft drink bottling plant in North Bay, Ontario. Problem : How could they compete with the Coca-Colas and the Pepsi-Colas and Canada Drys ? Solution : Get rid of the biggest single cost — distribution."



The traditional way to market soft drinks is to put as wide a range of products into as many outlets as possible and to maintain service to the public by enlarging production and distribution systems. These principles lead inevitably to high transportation, packaging and warehousing costs.

As Forbes commented about PoP Shoppes: "... a brilliantly simple idea!"

Instead of sending trucks out with cases of soft drinks to be delivered to retailers all over town, PoP Shoppes built factory-stores in areas of heavy population traffic, such as shopping centres and areas where parking was easy.

The "brilliance" of the concept becomes crystal clear when the following is considered: A Coca-Cola truck fills up with 400-450 cases in the morning, (the truck costs about \$50,000, uses high priced gasoline and is staffed by a driver and helper) and by the evening has delivered its 400 cases. The local PoP Shoppe meanwhile, would have sold an equivalent amount in just 60 minutes.

This type of merchandising, like McDonald's or Colonel Sanders, requires a sound marketing formula to make it successful. The distinctive red soft drink case is the core of The PoP Shoppe formula. Customers coming to

a factory-store for the first time make a \$3 refundable deposit on the red case and bottles. This establishes a strong financial link between a customer and his PoP Shoppe. To obtain the benefit of soft drinks at prices 50% below those of national brands he realizes he must amortize the cost of his case by continuing to return to the factory-store. It is not uncommon today for a large family to have three or four red cases on hand, representing a deposit of \$9 or \$12 with the local PoP Shoppe; a real impetus to keep coming back.

The operation is further simplified by standardizing on only two refundable bottle sizes.

Quality:

Low prices and quality rarely go together. In periods of inflation they might almost be considered as contradictory terms.

It was realized early that no matter how innovative the distribution system was, The PoP Shoppe product would constantly be in what the advertisers call a "taste test" with national brands. There could be, therefore, no compromise with quality.

While still in its infancy, PoP Shoppes acquired Kist Canada, Limited, a company that had built over 40 years a solid reputation for excellence in the flavour industry. In the United States, Heritage

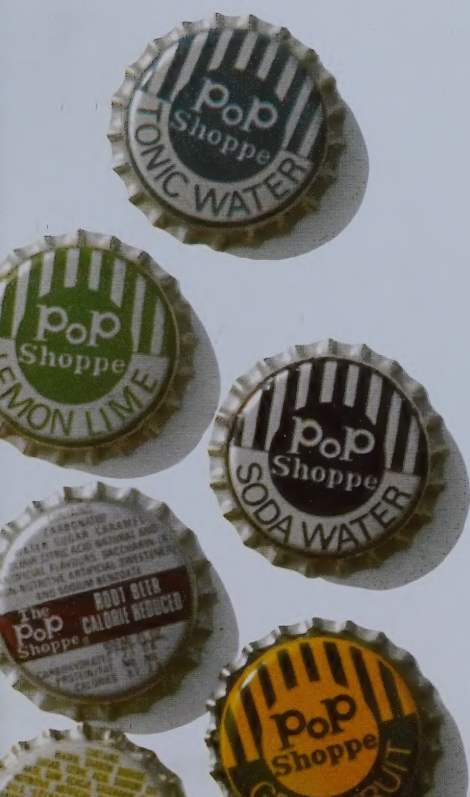
Flavour Corp., an affiliate of PoP Shoppes of America, Inc. supplies all our concentrates under license. Both these companies are supported by quality control laboratories that constantly monitor standards.

During 1975, the Chatelaine Consumer Council (Chatelaine is the leading women's consumer magazine in Canada) undertook a beverage survey across the country. The results showed that The PoP Shoppe ranked in the top three in each of 16 flavours surveyed. Our brands lead all orange, grapefruit, grape, root beer and cream soda tests; were second in lemon-lime, soda water, lemon and ginger ale (both diet and regular); and third in diet and regular cola, diet lemon-lime, tonic water and collins mix.

People:

Adam Smith, whose book *The Wealth of Nations* began the capitalist system 200 years ago, believed that the drive of the individual for personal gain would benefit society as a whole. He was right, and the drive of the independent PoP Shoppe owner benefits the organization as a whole and is one of its greatest assets.

He provides the capital to open new factory-stores and is largely independent, although the company maintains strict control over standards to ensure



product quality, uniform image and financial control. All soft drink concentrate is supplied by the company and the licensee pays royalty fees of 6% of beverage sales and 20% of gross profits on sundry sales.

PoP Shoppes International Inc. also owns factory outlets and this serves to keep management in touch with the market. A unique feature of our policy has been to "step-out expertise" by buying out existing licensees who in some cases will take their knowledge to new areas. It has been a most successful policy.

Environment :

During the year, governments in many North American jurisdictions stepped up the pressure on the industry to "clean up its act." If certain legislation were enacted, bottlers might have to make a relatively substantial investment in returnable bottles and cases and, as a result, increase even further their transportation and distribution costs. In fact legislation has already been enacted in certain states and provinces. Where this has happened it has enhanced the

competitive position of The PoP Shoppe since our concept is built around returnable bottles. A survey last year showed that PoP Shoppes bottles are estimated to make an average of 90 trips, good by any standards.

Our slogan is : "You'll find our plants all over the country . . . never our bottles."

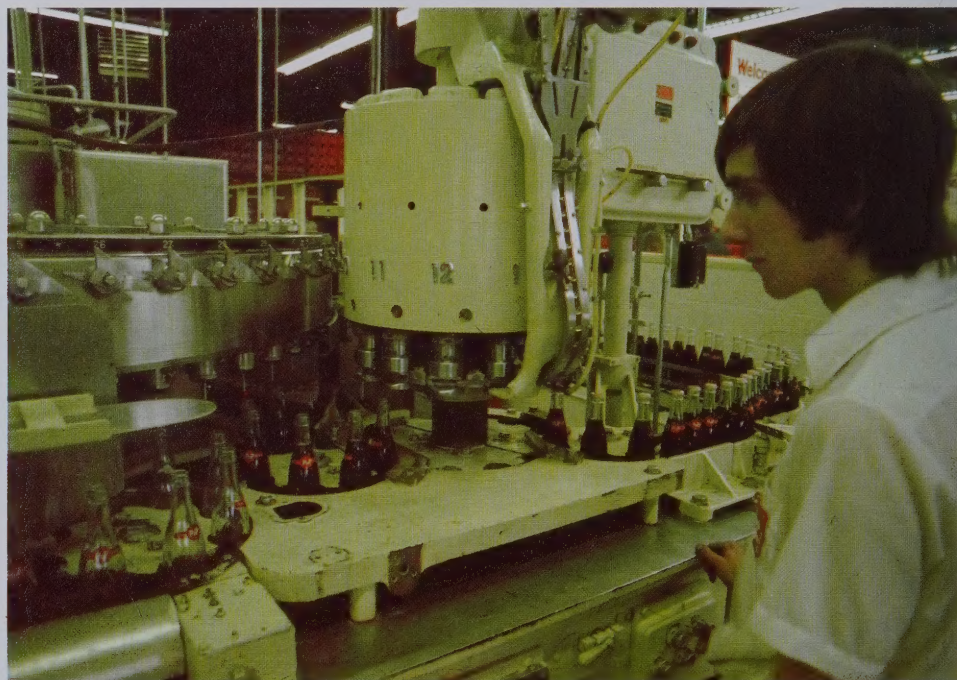
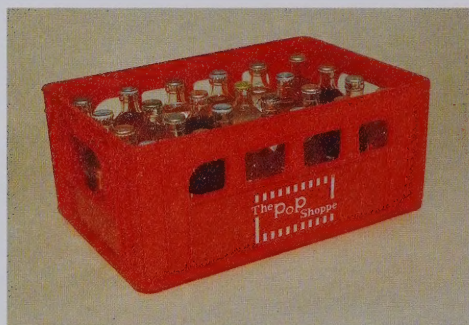
Retail :

The retailing end of the operation stresses efficiency, simplicity and cleanliness. Again, price competitiveness is achieved by the utilization of a customer's labor.

When he comes to a PoP Shoppe he enters a "soft drink supermarket". He begins by returning his case of empty bottles and selecting an empty case for his shopping cart. On a self-serve basis, he may mix and match from a wide assortment of sugar-free drinks and regular flavours, including a full selection of popular mixers.

In the aisles approaching the check out cashier, a typical facility will have a display of large containers of The PoP Shoppe private labelled potato chips, nuts, bagged ice, ice cream, and other sundry items, all at substantial discounts from supermarket prices.

Then — through the check out to the parking lot !





Financial report

Earnings:

Net earnings increased \$579,939 from \$840,405 for the year ended December 31, 1974 to \$1,420,344 for the year ended December 31, 1975.

Earnings per share also rose to a record \$.37, up 48% from \$.25 per share earned in 1974.

Total revenues for 1975 were a record \$13,908,000 up \$5,070,000 over \$8,838,000 in 1974. Revenues consist principally of net sales of Company-owned outlets, sale of concentrates and licensee fees.

Balance Sheet:

In 1975 our assets increased to \$22,385,000 up \$6,872,000 from \$15,513,000 as at December 31, 1974.

The Company's working capital increased \$2,726,000 to \$4,175,000 as at December 31, 1975 up from \$1,449,000 the previous year.

The majority of our capital expenditures were investments in returnable containers, bottling equipment, additional licensee acquisitions and working capital.

During the year we increased our total investment in returnable containers to \$6,720,000 up \$1,829,500 from

\$4,890,500 as at December 31, 1974.

In addition we spent approximately \$1,000,000 acquiring bottling equipment for our Company-owned outlets.

The remainder of our capital expenditures were utilized in strengthening our working capital position and in acquiring controlling interests in three additional licensee operations. The Company presently owns 100% of the shares in licensees operating 12 factory outlets and controls or effectively controls the operations of licensees operating an additional four factory outlets.

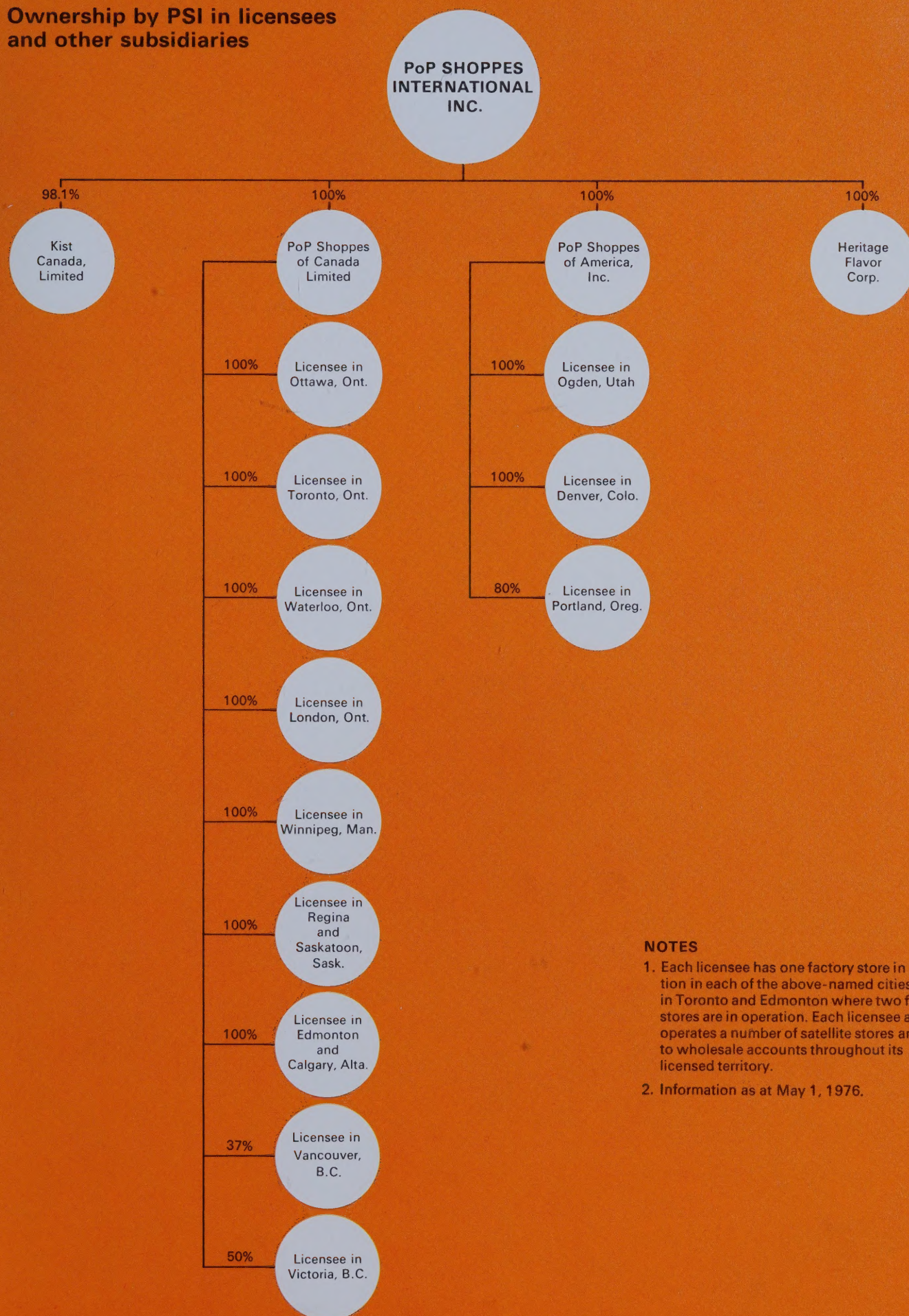
During the year the Company raised \$3.5 million through a public offering of its common shares to the public. In addition, the Company raised \$1.5 million through the placement of 60,000 8½% First Preference Shares with a par value of \$25.00 each.

With these two issues, shareholders' equity rose to a record \$10,368,000 at the year-end, up from \$4,772,000 for the previous year.

It is also interesting to note that at December 31, 1975 shareholders' equity represents 46% of the Company's total assets as compared to 31% at December 31, 1974.



Ownership by PSI in licensees and other subsidiaries



NOTES

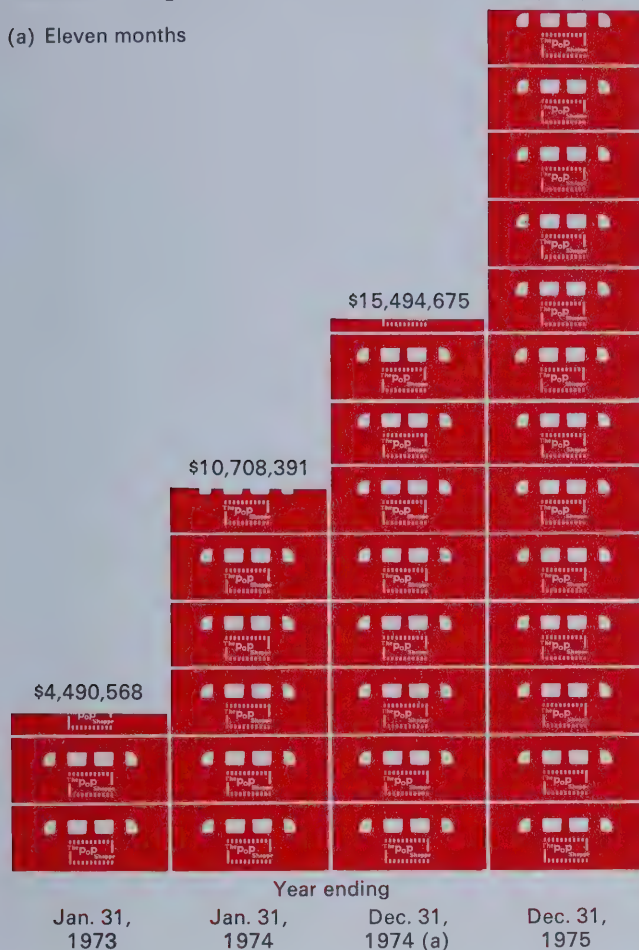
1. Each licensee has one factory store in operation in each of the above-named cities except in Toronto and Edmonton where two factory stores are in operation. Each licensee also operates a number of satellite stores and sells to wholesale accounts throughout its licensed territory.
2. Information as at May 1, 1976.



Sales including licensees

\$24,148,423

(a) Eleven months



Total assets

\$22,385,101

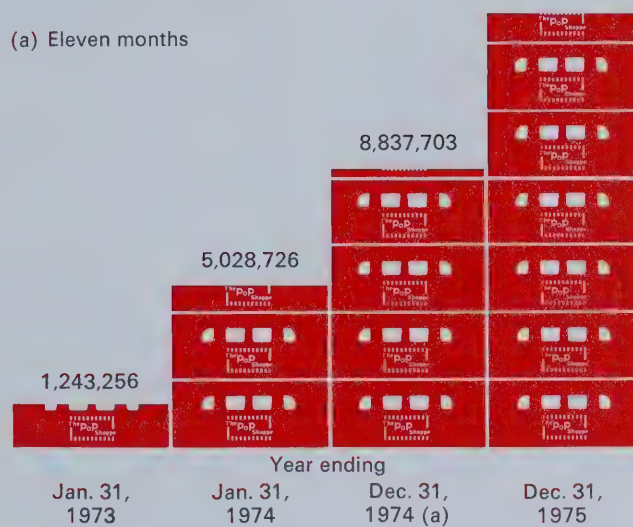
(a) Eleven months



Consolidated Revenues

13,908,115

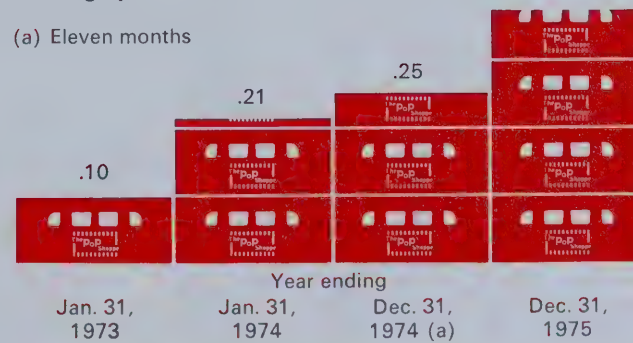
(a) Eleven months



Earnings per Share

.37

(a) Eleven months



POP SHOPPES INTERNATIONAL INC.
and Subsidiary Companies

Consolidated Balance Sheet as at December 31, 1975

ASSETS

	1975 \$	1974 \$ (note 14)
Current Assets		
Cash and short-term deposits	2,310,690	597,398
Accounts receivable (note 3)	1,101,893	929,208
Notes receivable (note 3)	385,119	568,470
Inventories (notes 3 and 4)	745,332	676,184
Containers (note 3)	6,719,823	4,890,317
Prepaid expenses	385,780	127,675
	11,648,637	7,789,252
Due under employee share purchase plans (note 10)	748,681	443,317
Investment in shares of and advances to licensee companies (note 5)	942,761	1,030,762
Fixed assets (note 6)	3,896,407	2,505,745
Other assets (note 7)	2,119,299	1,165,426
Excess of cost of shares in subsidiary companies over book value of net assets acquired (note 1)	3,029,316	2,578,596
	22,385,101	15,513,098

LIABILITIES

Current Liabilities

Bank advances (note 3)	1,418,368	1,437,208
Notes payable	10,000	640,720
Accounts payable and accrued liabilities	1,664,808	1,258,073
Due on purchase of shares in subsidiary company	—	284,187
Refundable deposits on containers	1,884,770	1,387,732
Dividends payable	32,160	—
Current portion of long-term debt	1,147,395	637,039
	6,157,501	5,644,959
Deferred income taxes	1,315,675	694,947
	7,473,176	6,339,906
Long-term debt (note 8)	3,978,180	3,746,506
Deferred income taxes	566,099	654,553
	12,017,455	10,740,965

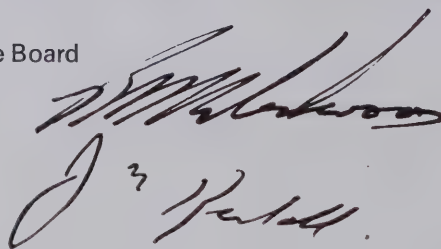
SHAREHOLDERS' EQUITY

Capital stock (notes 9, 10, 11, 12 and 17)	7,496,785	3,209,731
Retained earnings	2,870,861	1,562,402
	10,367,646	4,772,133
	22,385,101	15,513,098

Signed on behalf of the Board

Director

Director




Pop SHOPPES INTERNATIONAL INC.
and Subsidiary Companies

Consolidated Statement of Earnings

for the year ended December 31, 1975

(with comparative figures for the eleven months ended December 31, 1974)

	1975 \$	1974 \$ (note 14)
Revenues		
Sales	13,326,714	8,517,195
Licenses	436,433	325,208
Share of net earnings (loss) of effectively controlled companies	43,000	(4,700)
Gain on sale of investment in licensee	101,968	—
	<u>13,908,115</u>	<u>8,837,703</u>
Costs and expenses		
Cost of sales	6,683,978	4,723,406
Selling, general and administrative	3,871,224	2,168,155
Depreciation	155,718	107,568
Interest on long-term debt	488,225	127,152
Other interest	234,828	208,437
Amortization of deferred costs	238,086	111,021
Amortization of other costs	44,551	—
Adjustment of prior years' expenses	—	(101,724)
	<u>11,716,610</u>	<u>7,344,015</u>
	2,191,505	1,493,688
Provision for income taxes	868,161	653,283
Earnings for the year before extraordinary item	1,323,344	840,405
Reduction of current year's income taxes on application of losses in prior periods	97,000	—
Net earnings for the year	<u>1,420,344</u>	<u>840,405</u>
Earnings per share (note 13)		
Basic		
Earnings for the year before extraordinary item	.34	.25
Net earnings for the year	.37	.25
Fully diluted		
Earnings for the year before extraordinary item	.33	.25
Net earnings for the year	.36	.25

Consolidated Statement of Retained Earnings

for the year ended December 31, 1975

(with comparative figures for the eleven months ended December 31, 1974)

	1975 \$	1974 \$
Balance — beginning of year		
As previously reported	1,588,052	742,947
Adjustment to recognize the change in accounting principles for recording the investment in effectively controlled companies from the cost to the equity method (note 2)	25,650	20,950
As restated	1,562,402	721,997
Net earnings for the year	1,420,344	840,405
	<u>2,982,746</u>	<u>1,562,402</u>
Dividends on preference shares	111,885	—
Balance — end of year	<u>2,870,861</u>	<u>1,562,402</u>



POP SHOPPES INTERNATIONAL INC.
and Subsidiary Companies

**Consolidated Statement of Changes in
Financial Position**

for the year ended December 31, 1975

(with comparative figures for the eleven months ended December 31, 1974)

	1975 \$	1974 \$ (note 14)
Source of Working Capital		
Earnings for the year before extraordinary item	1,323,344	840,405
Items not affecting working capital —		
Depreciation	155,718	107,568
Amortization	282,637	110,162
Adjustment of prior years' expenses, excluding containers	—	(38,517)
Gain on sale of investment in licensee	(101,968)	—
Share of (net earnings) loss of effectively controlled companies	(43,000)	4,700
Deferred income taxes	130,546	406,452
Provided from operations	1,747,277	1,430,770
Reduction of current year's income taxes on application of losses in prior periods	97,000	—
Working capital of subsidiaries acquired	35,127	—
Proceeds from issue of shares —		
Preference	1,500,000	—
Common (\$3,737,802 less deferred tax saving of \$219,000 on costs of issue)	3,518,802	689,186
Reduction of advances	118,468	—
Proceeds on liquidation of investment	114,501	—
Proceeds from long-term debt	1,463,384	2,841,475
	8,594,559	4,961,431
Use of Working Capital		
Dividends	111,885	—
Increase in employee share purchase plans	305,364	443,317
Increase in investments and advances	—	901,393
Working capital deficiency of the subsidiaries acquired	—	9,024
Purchase of fixed assets, net	1,193,719	313,490
Additions to deferred costs	934,702	713,649
Additions to other assets	287,227	129,400
Reduction of long-term debt, including the increase in current portion	1,620,151	1,465,586
Redemption of second preference shares	950,748	—
Excess of cost of shares in subsidiary companies over book value of net assets acquired	464,648	235,534
	5,868,444	4,211,393
Increase in Working Capital	2,726,115	750,038
Working Capital — beginning of year	1,449,346	699,308
Working Capital — end of year	4,175,461	1,449,346



PoP SHOPPES INTERNATIONAL INC. and Subsidiary Companies

Notes to Consolidated Financial Statements for the year ended December 31, 1975

1. Summary of significant accounting policies

Basis of consolidation

The purchase method of accounting for business acquisitions, all of which were share purchases and related to the soft drink industry, has been followed in the preparation of the consolidated financial statements, which include the assets, liabilities and earnings of all subsidiary companies. Except for minority interests which are immaterial, all companies are wholly-owned.

The assets and liabilities and results of operations of United States subsidiaries are included on the basis of parity between Canadian and U.S. dollars.

It was the policy of the company not to amortize the excess costs of the investments in shares of subsidiaries over the book value of net assets acquired, because, in the opinion of management, no decrease in value of this asset was, or is, expected. However, in accordance

with generally accepted accounting principles excess costs incurred after March 31, 1974 are to be amortized on a straight-line basis by charges to income over the succeeding forty years.

An historical summary of acquisitions made by the company and its subsidiaries to December 31, 1975 is as follows:

	PoP Shoppes of Canada Limited	Kist Canada, Limited	PoP Shoppes (Waterloo) Limited	PoP Shoppes (Alberta) Ltd.	PoP Shoppes (Toronto) Limited	R.B.S. Enterprises Limited	PoP Shoppes (Ottawa) Limited	Western PoP Shoppes Inc.	Utah Beverage Services, Inc.	Oregon Beverage Services, Inc.	Total
Effective date of acquisition	December 23, 1971	August 31, 1972	August 31, 1972	January 15, 1973	September 1, 1973	December 1, 1974	December 1, 1974	March 31, 1975	March 31, 1975	March 31, 1975	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net assets acquired											
Net assets (liabilities), at the book value of the subsidiary	174,880	194,488	18,166	236,808	198,373	7,938	(72,911)	139,617	(147,156)	(88,513)	661,690
* Excess costs	388,738	107,953	69,934	1,004,863	816,898	175,879	74,021	113,399	161,351	130,208	3,043,244
	<u>563,618</u>	<u>302,441</u>	<u>88,100</u>	<u>1,241,671</u>	<u>1,015,271</u>	<u>183,817</u>	<u>1,110</u>	<u>253,016</u>	<u>14,195</u>	<u>41,695</u>	<u>3,704,934</u>
Consideration given											
Cash	424,471	302,441	88,100	711,421	415,271	37,992	1,110	185,521	14,195	41,695	2,222,217
Common shares	139,147	—	—	530,250	600,000	145,825	—	67,495	—	—	1,482,717
	<u>563,618</u>	<u>302,441</u>	<u>88,100</u>	<u>1,241,671</u>	<u>1,015,271</u>	<u>183,817</u>	<u>1,110</u>	<u>253,016</u>	<u>14,195</u>	<u>41,695</u>	<u>3,704,934</u>
* Excess costs	Unamortized Balance										
	Excess Costs	Amortization	1975	1974							
	\$	\$	\$	\$							
	<u>3,043,244</u>	<u>13,928</u>	<u>3,029,316</u>	<u>2,578,596</u>							

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out basis for raw materials and supplies, average cost for finished goods, and specific identification for equipment for resale.

Containers and amortization

Containers represent bottles and cases and are valued at cost less an allowance for breakage and loss of \$508,575 (1974 – \$328,779). Amortization is provided at the rate of 3¢ per case sold which is considered sufficient to absorb cost, less customers' deposits, over the estimated useful life.

Investments in shares of licensee companies

Included in these investments are interests in two effectively controlled licensees accounted for on the equity basis. Other investments included represent either non-voting or nominal voting equity interests accounted for on the cost basis.

Fixed assets and depreciation

Fixed assets are stated at acquisition cost. Depreciation and amortization are provided for in the accounts using the straight-line method in amounts sufficient to amortize costs over the estimated

useful lives of the assets at the following annual rates:

Buildings	2½%
Leasehold improvements	20%
Machinery and equipment	5-10%
Mobile equipment	15%

Deferred costs and amortization

Costs identifiable with the company's program of opening and developing factory stores and wholesale outlets are amortized over 60 months. Promotional seminar costs are amortized over 12 months.

Other costs and amortization

Costs incurred in the development of

Notes to Consolidated Financial Statements (continued)

for the year ended December 31, 1975

advertising materials utilized in the company's national and local promotional campaigns are amortized over 60 months. Costs incurred in connection with obtaining long-term debt are amortized over the term of the respective borrowing.

Refundable deposits on containers

The refundable deposits on containers represent monies received as deposits net of returns at the prevailing deposit

rate. Deposit rates since the commencement of operations are as follows :

	\$
Prior to May 1972	1.60
May 1972 to May 1974	2.00
May 1974 to date	3.00

Deferred income taxes

The company accounts for income taxes using the deferral method of tax allocation under which income taxes are provided in the year for those trans-

actions affecting net income, regardless of when such items are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to amortization of containers and other assets and depreciation of fixed assets, where the cumulative amounts claimed for tax purposes exceed the amounts deducted for accounting purposes.

2. Change in accounting principles

In order to conform with generally accepted accounting principles in respect to long-term intercorporate investments, the company has taken into its accounts its share of the accumulated net earnings of two effectively controlled companies in which it holds thirty-seven percent and

fifty percent interests respectively. Accordingly, the investments are now shown on the balance sheet at their equity value. The balance of retained earnings at December 31, 1974 previously reported as \$1,588,052 has been restated to show a retroactive loss of \$25,650 representing the cumulative

share of losses to that date. The company's share of losses applicable to 1974 of \$4,700 has been charged against income for that period while net adjustments applicable to years ending prior to February 1, 1974 have been applied to restate the balance of retained earnings at that date.

3. Security for bank advances

Book debts, inventories and containers together with all the shares of two

subsidiaries, PoP Shoppes (Toronto) Limited and PoP Shoppes (London)

Limited, have been pledged as security, for bank advances.

4. Inventories

Inventories are as follows :

	1975	1974
	\$	\$
Raw materials	243,413	300,965
Finished goods	189,990	164,917
Supplies	288,341	109,193
Equipment for resale	23,588	101,109
	<u>745,332</u>	<u>676,184</u>

5. Investments in shares of and advances to licensee companies

These are as follows :

	1975	1974
	\$	\$
Investment in effectively controlled companies, at equity value	103,044	55,791
Investment in other companies, at cost	386,139	181,041
Advances	453,578	793,930
	<u>942,761</u>	<u>1,030,762</u>

6. Fixed assets

Fixed assets are as follows :

	Cost	Accumulated depreciation	Net Book Value	
			1975	1974
	\$	\$	\$	\$
Land	598,224	—	598,224	382,557
Buildings and leasehold improvements	1,405,253	157,918	1,247,335	972,293
Machinery and equipment	2,217,522	303,094	1,914,428	1,084,136
Mobile equipment	183,565	47,145	136,420	66,759
	<u>4,404,564</u>	<u>508,157</u>	<u>3,896,407</u>	<u>2,505,745</u>

7. Other assets

Other assets are as follows :

	Cost	Amortization	Unamortized Balance	
			1975	1974
	\$	\$	\$	\$
(a) Deferred Costs				
Opening	923,408	242,833	680,575	450,212
Development	983,930	138,444	845,486	475,208
Promotional seminar	125,814	27,560	98,254	1,626
	<u>2,033,152</u>	<u>408,837</u>	<u>1,624,315</u>	<u>927,046</u>
(b) Other				
Issue costs of 8½% first preference shares	71,079	—	71,079	—
Advertising materials	237,765	18,385	219,380	78,687
Borrowing	72,708	7,383	65,325	66,522
Trademarks	130,466	4,806	125,660	80,236
Organization expense	13,589	49	13,540	12,935
	<u>525,607</u>	<u>30,623</u>	<u>494,984</u>	<u>238,380</u>
	<u>2,558,759</u>	<u>439,460</u>	<u>2,119,299</u>	<u>1,165,426</u>

8. Long-term debt

Long-term debt is as follows :

	1975	1974
	\$	\$
(a) The Company		
(i) 14¼% Debenture due 1980	1,800,000	2,000,000
Secured by a fixed and floating charge on the property and assets of the company and certain of its subsidiaries, a pledge of all the shares of a subsidiary, PoP Shoppes of America, Inc. and the guarantee of certain of the company's subsidiaries and its parent in the amount of \$1,500,000 each.		
(ii) 8% Notes payable due 1976	21,900	43,900
(iii) Advances from parent company	250,670	526,951
	<u>2,072,570</u>	<u>2,570,851</u>

Notes to Consolidated Financial Statements (continued)

for the year ended December 31, 1975

(b) Subsidiaries

(i) 9½%-14½% Debentures and mortgages due 1976-1988 secured by fixed and/or floating charges	1,302,221	1,104,144
(ii) Conditional Sales Agreements due 1976-1979	235,287	86,475
(iii) Demand term loans	1,105,247	346,050
Bank loans due 1976-1980 at the prime bank rate plus 2-3%		
The bank loans are secured by book debts, inventories and containers.		
(iv) Notes payable due 1976-1984 varying from non-interest bearing to 10%	410,250	276,025
	<u>3,053,005</u>	<u>1,812,694</u>
	5,125,575	4,383,545
Less : Current portion	1,147,395	637,039
	<u>3,978,180</u>	<u>3,746,506</u>

(c) Principal payments on long-term debt required during the next five years are as follows :

	\$
1976	1,147,395
1977	1,164,000
1978	937,000
1979	752,000
1980	422,000
	<u>4,422,395</u>

9. Capital stock

(a) Authorized

By means of articles of amendment effective July 7, 1975, the authorized capital was changed to the following :
100,000 first preference shares with

a par value of \$25 each, issuable in series, of which 60,000 shares constitute the first series designated as 8½% cumulative redeemable convertible first preference shares series A,

49,252 6% voting non-cumulative redeemable second preference shares with a par value of \$1.00 each, and
10,000,000 common shares without par value.

(b) Issued

	1975	1974
	\$	\$
60,000 8½% first preference shares series A	1,500,000	—
950,748 6% second preference shares	—	950,748
4,299,488 common shares	5,996,785	2,258,983
	<u>7,496,785</u>	<u>3,209,731</u>

The 8½% first preference shares series A may be redeemed at the option of the company after July 15, 1978 and on or before July 15, 1979 at \$30 per share. The redemption price decreases by \$1 each year to July 15, 1983 and thereafter is par value.

(c) Changes in Capital Stock

	1975		1974	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Preference Shares				
8½% first preference shares series A				
Issued for cash	60,000	1,500,000	—	—
6% second preference shares				
Redeemed for cash	—	—	950,748	950,748

9. Capital stock (continued)

(c) Changes in Capital Stock (continued)

	1975		1974	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common Shares				
Balance - beginning of year	3,400,378	2,258,983	3,190,266	1,569,797
Issued for cash	712,945	3,521,436	127,100	508,400
Issued under employee share purchase plan	98,000	436,500	64,927	200,831
Issued as consideration for purchase of subsidiary companies	32,664	163,320	10,000	50,000
Issued pursuant to anti-dilution agreements	55,501	—	8,085	—
		6,380,239		2,329,028
Less : Costs of issue		383,454		70,045
Balance — end of year	4,299,488	5,996,785	3,400,378	2,258,983

10. Due under employee share purchase plans

The company has share purchase plans for its senior officers and employees, certain of whom are shareholders and directors of the

company. Under these plans \$885,817 has been advanced by way of loans without interest to enable the trustee under these plans to acquire common

shares on behalf of members of the plans.

11. Stock options and other rights

By an amended agreement dated December 8, 1975, in fulfillment of one of the conditions upon which the company incurred long-term indebtedness of \$2,000,000 (note 8(a)(i)), the company gave the lender an option to

purchase 169,286 common shares at a price of \$3.79 per share. This option is exercisable at any time until mid 1980.

The 8½% first preference shares series A are convertible up to July 15, 1980 on the basis of 5 common shares for each

series A share and from July 15, 1980 to July 15, 1985 on the basis of 3 common shares for each series A share.

Under the employee share purchase plan, 7,073 common shares which have been set aside remain unissued.

12. Restriction on payment of dividends

The company has agreed not to make payments of dividends in any year in excess of 50% of its consolidated net earnings of the previous year without consent of the holder of the \$2,000,000 debenture.

The provisions attaching to the first preference shares series A of the com-

pany preclude declaring or paying dividends (other than certain stock dividends) on its outstanding common shares unless all dividends accumulated on the first preference shares have been paid or set apart for payment. Such provisions further provide that no dividends (other than certain stock

dividends) may be declared on the common shares of the company except out of consolidated net earnings available for dividends earned subsequent to December 31, 1974 or out of the proceeds of any issue of shares by the company after August 12, 1975.

13. Earnings per share

(a) Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period.

(b) Fully diluted earnings per share

have been calculated after giving effect to the exercise of the outstanding stock options and other rights and conversion of the 8½% first preference shares series A. In this calculation, earnings of

\$31,760 were imputed at the rate of 9% on the deemed proceeds on the exercise of the options.

Notes to Consolidated Financial Statements (continued)

for the year ended December 31, 1975

14. Comparative figures

Comparative figures for 1974 have been re-arranged in certain instances to conform to the current year's presentation.

15. Contingent liabilities

The company and its subsidiaries have guaranteed debts in the amount of \$500,000 (1974 – \$865,000) on behalf of licensee companies.

16. Long-term leases

Rental expense incurred in 1975 and minimum annual commitments under lease agreements are as follows :

	\$		\$
1975	353,000	1978	310,000
1976	359,000	1979	284,000
1977	327,000	1980	278,000

17. Anti-inflation act

The company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

The impact of this legislation on the

company's profit margins, prices and compensation arrangements is not presently subject to satisfactory determination because of the uncertainties respecting the application to the operations of the company of certain provisions and definitions contained in the

Act and Regulations.

Under the legislation it appears that the amount of dividends which the company can declare or pay during the period from December 31, 1975 to October 13, 1976 will be limited to approximately \$210,000.

18. Other statutory information

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior

officers (as defined by The Business Corporations Act, Ontario) for the year

ended December 31, 1975, was \$267,934 (1974 – \$159,801).

19. Subsequent event

The company's application for listing on a public stock exchange was accepted on February 11, 1976.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of PoP Shoppes International Inc. and its subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence

as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied,

after giving retroactive effect to the change in accounting for the investment in effectively controlled companies referred to in note 2 to the financial statements, on a basis consistent with that of the preceding period.

Coopers & Lybrand
Chartered accountants

Four year financial review

Financial results

	Net revenue	Net earnings	Earnings per share	Shares outstanding (a)
1975	\$13,908,115	\$1,420,344	\$.37	3,838,768
1974(b)	8,837,703	840,405	.25	3,361,620
1974(c)	5,028,726	645,966	.21	3,049,278
1973(c)	1,243,256	96,981	.10	1,012,500

Financial position

	Current assets	Current liabilities	Working capital	Shareholders' equity	Book value per share (d)
1975	\$11,648,637	\$7,473,176	\$4,175,461	\$10,367,646	\$2.41
1974(b)	7,789,252	6,339,906	1,449,346	4,772,133	1.40
1974(c)	4,949,248	3,297,145	1,652,103	3,263,492	1.02
1973(c)	1,568,601	1,807,567	(238,966)	97,048	.04

(a) Weighted average of common shares outstanding during the year.

(b) Eleven months ended December 31, 1974.

(c) Year ended January 31.

(d) Based on the common shares outstanding at the end of the year.





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